

18. APPROVAL OF AGREEMENT ON UNDERSTANDING AND APPROVAL OF AMENDED CONDENSATE PURCHASE AGREEMENT, P.R.C. 2205.1, NAPLES FIELD, SANTA BARBARA COUNTY; PHILLIPS PETROLEUM COMPANY - W.O. 4765.

After consideration of Calendar Item 19 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE COMMISSION:

1. APPROVES THE AMENDMENT DATED MARCH 13, 1963, OF THE CONDENSATE PURCHASE AGREEMENT BETWEEN PHILLIPS PETROLEUM COMPANY AND TIDEWATER OIL COMPANY FOR THE PERIOD MARCH 1, 1963, THROUGH JULY 14, 1963, AND THE NATURAL GASOLINE PURCHASE AGREEMENT DATED JULY 15, 1963, AS AMENDED BY LETTER DATED JUNE 15, 1964, BETWEEN PHILLIPS PETROLEUM COMPANY AND UNION OIL COMPANY OF CALIFORNIA, FOR THE PERIOD COMMENCING JULY 15, 1963, AND CONTINUING UNTIL TERMINATED BY EITHER PARTY, AS A BASIS FOR THE SALE OF THE STATE'S ROYALTY SHARE OF NONOIL PRODUCTION UNDER LEASE P.R.C. 2205.1, PROVIDED, HOWEVER, THAT AFTER JULY 15, 1963, THE LESSEE BE REQUIRED TO PAY TO THE STATE A ROYALTY BASED UPON THE HIGHEST PRICE IN THE NEAREST FIELD AT WHICH SUCH NONOIL PRODUCTION OF LIKE QUALITY IS BEING SOLD IN SUBSTANTIAL QUANTITIES, AS PROVIDED IN THE AGREEMENT ON UNDERSTANDING;
2. APPROVES THE "AGREEMENT ON UNDERSTANDING AND CLARIFICATION OF THE RIGHTS AND OBLIGATIONS OF PARTIES UNDER OIL AND GAS LEASE (P.R.C. 2205.1)", AND AUTHORIZES THE EXECUTIVE OFFICER TO EXECUTE SAID AGREEMENT.

Attachment

Calendar Item 19 (2 pages)

19.

APPROVAL OF AGREEMENT ON UNDERSTANDING AND APPROVAL OF AMENDED CONDENSATE PURCHASE AGREEMENT, P.R.C. 2205.1, NAPLES FIELD, SANTA BARBARA COUNTY; PHILLIPS PETROLEUM COMPANY - W.O. 4765.

State Oil and Gas Lease P.R.C. 2205.1, covering 3,840 acres of tide and submerged lands, issued on July 25, 1958, to Phillips Petroleum Company and Edwin W. Pauley, et al., pursuant to competitive public bidding, provides in part that the lessee shall not sell or otherwise dispose of the royalty share of products produced from the lease except in accordance with approved sales contracts or other methods first approved in writing by the State.

In order to define the terms of the lease, the Division and the lessee have prepared an "Agreement on Understanding and Clarification of the Rights and Obligations of Parties Under Oil and Gas Lease (P.R.C. 2205.1)" (see Exhibit "A" attached) which clarifies certain rights and obligations under the lease with respect to the methods by which the lessee is to account to the State for royalties on gas produced from the leased lands and natural gasoline and other liquid hydrocarbon products extracted and saved from the produced gas. The agreement has been approved by the Office of the Attorney General.

Phillips Petroleum Company has submitted for approval an amendment dated March 13, 1963, to the condensate purchase agreement dated January 20, 1962, between Phillips Petroleum Company and Tidewater Oil Company approved by the Commission on September 27, 1962 (Minute Item 18, page 8,333). The amendment reduces the price per barrel of 42 U.S. gallons of product delivered from \$3.33 to \$3.10 for the period March 1, 1963, through July 14, 1963. The lower sales price was the result of contamination by bitumen (a heavy residual hydrocarbon) and discoloration of the extracted natural gasoline. Phillips was able to reduce the contaminant in sufficient amounts to produce a clear product by July 15, 1963; however, Tidewater had served notice of termination of its contract on the above date. Phillips is now selling its condensate production from P.R.C. 2205.1 to the Union Oil Company of California pursuant to an agreement with Union dated July 15, 1963, as amended effective June 1, 1964. Phillips agrees, however, that the State's gas royalty payment will be computed on the highest posted price at the Elwood Field, the nearest field, for products of like quality. In the event that there should be no posted price at the Elwood Field for a period of 30 days or longer, the nearest field at which such nonoil production of like quality is being sold shall be deemed to be the Ventura Field.

IT IS RECOMMENDED THAT THE COMMISSION:

1. APPROVE THE AMENDMENT DATED MARCH 13, 1963, OF THE CONDENSATE PURCHASE AGREEMENT BETWEEN PHILLIPS PETROLEUM COMPANY AND TIDEWATER OIL COMPANY FOR THE PERIOD MARCH 1, 1963, THROUGH JULY 14, 1963, AND THE NATURAL GASOLINE PURCHASE AGREEMENT DATED JULY 15, 1963, AS AMENDED BY LETTER DATED JUNE 15, 1964, BETWEEN PHILLIPS PETROLEUM COMPANY AND UNION OIL COMPANY OF CALIFORNIA, FOR THE PERIOD COMMENCING JULY 15, 1963, AND CONTINUING UNTIL TERMINATED BY EITHER PARTY, AS A BASIS FOR THE SALE OF THE STATE'S ROYALTY SHARE OF NONOIL PRODUCTION UNDER LEASE P.R.C. 2205.1,

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PROVIDED, HOWEVER, THAT AFTER JULY 15, 1963, THE LESSEE BE REQUIRED TO PAY TO THE STATE A ROYALTY BASED UPON THE HIGHEST PRICE IN THE NEAREST FIELD AT WHICH SUCH NONOIL PRODUCTION OF LIKE QUALITY IS BEING SOLD IN SUBSTANTIAL QUANTITIES, AS PROVIDED IN THE AGREEMENT ON UNDERSTANDING;

2. APPROVE THE "AGREEMENT ON UNDERSTANDING AND CLARIFICATION OF THE RIGHTS AND OBLIGATIONS OF PARTIES UNDER OIL AND GAS LEASE (P.R.C. 2205.1)", AND AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE SAID AGREEMENT.